OCBOA Tax-Basis Compilations And Reviews Teleconference

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OCBOA-GAAP Comparison

I. Common Frameworks Of OCBOA

A. Pure cash basis

B. Modified cash basis

C. Income tax basis

D. Jurisdictional or regulatory compliance basis

E. Other basis

II. General Advantages And Disadvantages

A. Primarily depends on ***users*** of financial statements

B. Advantages

1) Providing relief from accounting standards that are not cost effective

2) Reduces "standards overload"

3) Timelier

4) Availability of inexpensive software (tax-based)

5) OCBOA for interim, GAAP for final

6) Useful when third-party distribution is limited

7) Useful when operations are heavily influenced by cash flow

8) Useful when users are primarily interested in tax implications

9) Useful when owners are closely involved in day-to-day operations

C. Disadvantages

1) Little authoritative guidance on applying OCBOA

2) Adaptation to appropriate OCBOA financial statement terminology

3) Unfunded obligations or commitments not recorded

4) Inadequate disclosures

5) Less desirable for highly leveraged entities

6) If going public, need history of GAAP statements

7) Bonding requires GAAP

8) May not promote comparability among financial statements

III. Pure Cash Basis (Description)

A. Recognizes revenues and expenses based on the receipt and disbursement of cash

B. Property and equipment are expensed and not capitalized

C. Balance sheet contains only cash and equity

D. Income statement contains only cash revenues and cash expenses

IV. Pure Cash Basis (Characteristics)

A. Limited use

B. Very simple operations

C. Entity's cash flow is parallel to its income and expenses

D. Inventory not recorded

E. Where did my money go?

F. Possible users

1) Small brokers and manufacturer representatives

2) School activity funds

3) Fairs and other civic ventures

4) Trusts and estates

5) Political action committees and political campaigns

V. Modified Cash Basis (Description)

A. Modification should have substantial support

B. Equivalent to GAAP separately and taken as a whole

C. Examples

1) Property and equipment purchased as assets

2) Accumulated depreciation

3) Inventory

4) Liabilities

5) Accruals

VI. Modified Cash Basis (Characteristics)

A. More commonly used than pure cash

B. Relatively simple operations

C. Possible users are entities whose operations are:

1) Oriented toward cash receipts and disbursements

2) Not significantly influenced by financing of sales or purchases

D. Many modifications may lead to GAAP; as such, same GAAP issues apply

VII. Tax Basis (Description)

A. Identical to income tax returns

B. What is tax basis? GAAP to cash basis and in-between

C. Profit-oriented entities for which cost of GAAP exceeds benefits

VIII. Tax Basis (Characteristics)

A. Entity formed for tax purposes

B. Tax-paying entities already maintain records on a tax basis

C. Eliminate more than one set of records (e.g. depreciation)

D. Users recognize, understand and are satisfied with tax basis

E. Need not consider measurement requirements of GAAP

F. Profit-oriented entities for which cost of GAAP exceeds benefits

G. Partnerships for which agreement requires use of tax-basis accounting

X. Additional Comments

A. Do accountants need to be thoroughly versed in GAAP before they can prepare OCBOA financial statements?

B. Fair value measurements are not relevant to OCBOA

C. Unmodified GAAP financial statement titles are not acceptable for use in OCBOA

D. FIN 46 – variable interest entities are not consolidated under income tax accounting

E. FIN 48 – tax discussion not relevant

F. Cash flow statement not required

G. Not two sets of depreciation schedules

H. Some creditors may take less than GAAP (schedules)

I. Educate creditors